

**SEWANEE UTILITY DISTRICT OF
FRANKLIN AND MARION COUNTIES
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2022**

**SEWANEE UTILITY DISTRICT
OF FRANKLIN AND MARION COUNTIES, TENNESSEE
ANNUAL FINANCIAL REPORT
For the Year Ended December 31, 2022**

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INTRODUCTORY SECTION

**SEWANEE UTILITY DISTRICT OF
FRANKLIN AND MARION COUNTIES, TENNESSEE
PRINCIPAL OFFICIALS
DECEMBER 31, 2022**

MANAGEMENT

William B. Beavers, General Manager

BOARD OF COMMISSIONERS

Charles Smith, President

Doug Cameron, Vice-President

Ronnie Hoosier, Secretary

Johnny Hughes, Commissioner

Donnie McBee, Commissioner

FINANCIAL SECTION

The MG Group, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Sewanee Utility District
Sewanee, Tennessee

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sewanee Utility District (the District), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Sewanee Utility District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the net position of the District as of December 31, 2022, and the changes in its net position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Sewanee Utility District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report

that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide

any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and other information sections but does not include the financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

MG Group, P.C.

Tullahoma, Tennessee
April 27, 2023

SEWANEE UTILITY DISTRICT OF FRANKLIN & MARION COUNTIES, TENNESSEE MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis and overview of the Sewanee Utility District of Franklin and Marion Counties, Tennessee's financial performance during the fiscal year that ended December 31, 2022. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The total assets at year-end were \$10,499,374 and exceeded liabilities in the amount of \$7,993,877 (i.e. net position). Of the total net position, \$1,612,353 was unrestricted and available to support short term operations. Total net position increased from fiscal year end 2021 in the amount of \$65,702.
- Operating revenues were \$1,501,110, an increase from 2021 in the amount of \$88,124.
- Operating expenses, including depreciation, decreased by \$119,344 when compared to fiscal year 2021.
- Operating income for the year was \$93,224.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District's planning, budget, bond resolutions and other management tools were used for this analysis.

The financial statements report information about the District using the full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. Financial statements include a statement of net position; a statement of revenues, expenses and changes in net position; a statement of cash flows; and notes to the financial statements. The statement of net position presents the financial position of the District on a full accrual historical cost basis. The statement of net position provides information about the nature and amount of resources and obligations at year-end. The statement of revenues, expenses and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the District's recovery of its costs.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, financing and investing activities. This statement presents cash receipts and cash disbursements information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

**SEWANEE UTILITY DISTRICT OF FRANKLIN & MARION COUNTIES, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. Supplementary information comparing the budget to actual expenses, as well as important debt coverage data, is provided when available.

SUMMARY OF ORGANIZATION OF BUSINESS

Sewanee Utility District of Franklin and Marion Counties is incorporated as a two-county utility district under Tennessee State law as the Sewanee Utility District of Franklin and Marion Counties, Tennessee, and is a provider of water and sewer to residents within the two-county area.

The District is charged to finance, construct, operate and maintain facilities for the transmission of potable water and treatment of sewage. A five member board governs the operations of the water and sewer operations. The board members serve staggered four year terms. When a vacancy occurs, a slate of three candidates is submitted by the Board to the customers for a vote. The candidate receiving the majority of votes is appointed to the Board.

FINANCIAL ANALYSIS

The statement of net position and the statement of revenues, expenses and change in net position report information about the District's activities. These two statements report the net position of the District and the changes. One can think of the District's net position – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating.

SUMMARIZED FINANCIAL INFORMATION

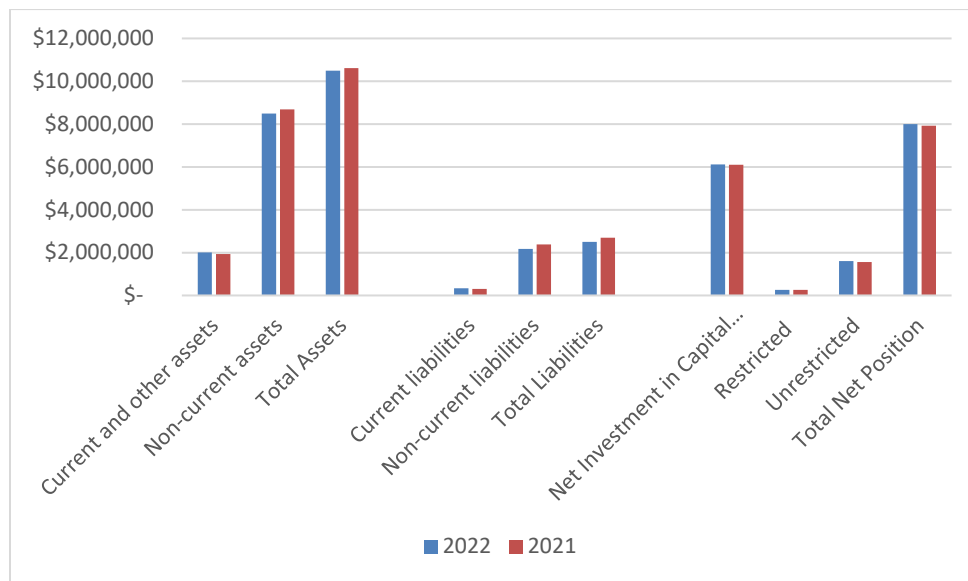
As can be seen from the above table, current assets increased by \$69,094 from \$1,936,961; current liabilities increased by \$20,774 from \$311,626; and unrestricted net position increased by \$51,158 from \$1,561,195.

While the statement of net position shows the change in financial position, the statement of revenues, expenses and change in net position provides answers as to the nature and source of these changes.

**SEWANEE UTILITY DISTRICT OF FRANKLIN & MARION COUNTIES, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Condensed Statement of Net Position

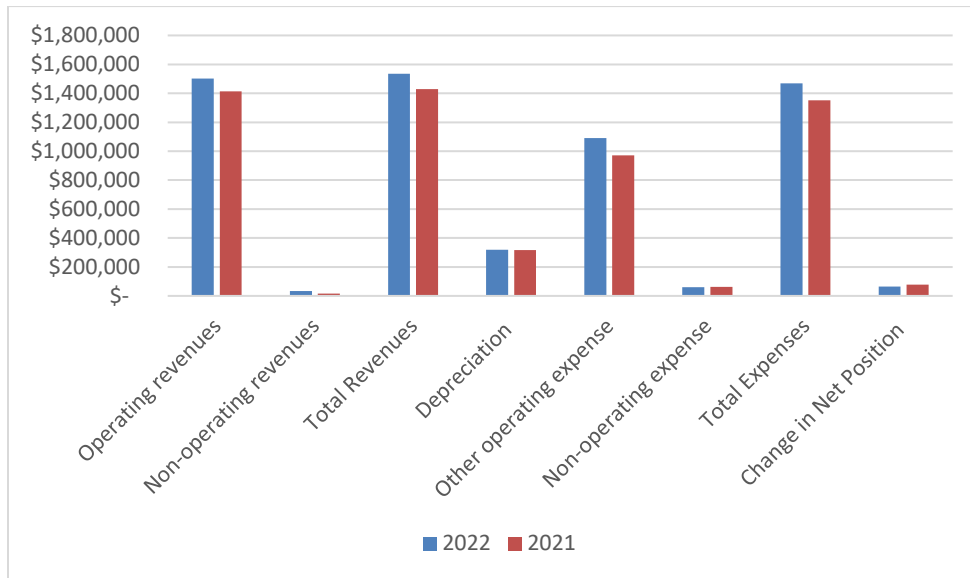
| | 2022 | 2021 | Change | Percent Change |
|----------------------------------|---------------------|---------------------|------------------|-----------------------|
| Current and other assets | \$ 2,006,055 | \$ 1,936,961 | \$ 69,094 | 3.57% |
| Non-current assets | 8,493,319 | 8,679,767 | (186,448) | -2.15% |
| Total Assets | 10,499,374 | 10,616,728 | (117,354) | -1.11% |
| Current liabilities | 332,400 | 311,626 | 20,774 | 6.67% |
| Non-current liabilities | 2,173,097 | 2,376,927 | (203,830) | -8.58% |
| Total Liabilities | 2,505,497 | 2,688,553 | (183,056) | -6.81% |
| Net Investment in Capital Assets | 6,116,392 | 6,102,461 | 13,931 | 0.23% |
| Restricted | 265,132 | 264,519 | 613 | 0.23% |
| Unrestricted | 1,612,353 | 1,561,195 | 51,158 | 3.28% |
| Total Net Position | \$ 7,993,877 | \$ 7,928,175 | \$ 65,702 | 0.83% |



**SEWANEE UTILITY DISTRICT OF FRANKLIN & MARION COUNTIES, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Condensed Statement of Revenues, Expenses and Change in Net Position

| | 2022 | 2021 | Change | Percent Change |
|----------------------------|---------------------|---------------------|------------------|-----------------------|
| Operating revenues | \$ 1,501,110 | \$ 1,412,986 | \$ 88,124 | 6.24% |
| Non-operating revenues | 33,658 | 16,536 | 17,122 | 103.54% |
| Total Revenues | 1,534,768 | 1,429,522 | 105,246 | 7.36% |
| Depreciation | 318,081 | 317,220 | 861 | 0.27% |
| Other operating expense | 1,089,806 | 971,323 | 118,483 | 12.20% |
| Non-operating expense | 61,179 | 63,279 | (2,100) | -3.32% |
| Total Expenses | 1,469,066 | 1,351,822 | 117,244 | 8.67% |
| Change in Net Position | 65,702 | 77,700 | (11,998) | -15.44% |
| Beginning Net Position | 7,928,175 | 7,850,475 | 77,700 | 0.99% |
| Ending Net Position | \$ 7,993,877 | \$ 7,928,175 | \$ 65,702 | 0.83% |



CAPITAL ASSETS

At December 31, 2022, the District had a net investment in capital assets of \$6,116,392.

**SEWANEE UTILITY DISTRICT OF FRANKLIN & MARION COUNTIES, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

| | Capital Assets | | | Percent |
|-------------------------------|-----------------------|---------------------|---------------------|----------------|
| | 2022 | 2021 | Change | Change |
| Capital Assets | | | | |
| Land | \$ 1,552,371 | \$ 1,552,371 | \$ - | 0.00% |
| Construction work in progress | - | 227,938 | (227,938) | 0.00% |
| Utility plant | 13,801,082 | 13,501,300 | 299,782 | 2.22% |
| Equipment and other | 1,080,138 | 1,020,350 | 59,788 | 5.86% |
| Less accumulated depreciation | (7,940,273) | (7,622,192) | (318,081) | 4.17% |
| Net Capital Assets | <u>\$ 8,493,318</u> | <u>\$ 8,679,767</u> | <u>\$ (186,449)</u> | <u>-2.15%</u> |

DEBT ADMINISTRATION

At year-end, the District had a total of \$2,173,097 of outstanding debt, a decrease from \$2,376,927 the year prior. This trend is expected to continue in future years as the District continues to meet its existing debt obligations while limiting borrowing.

UTILITY CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact the District's General Manager at 150 Sherwood Road, Sewanee, TN 37375.

**Sewanee Utility District
Statement of Net Position
December 31, 2022**

ASSETS

Current Assets:

| | |
|---|--------------|
| Cash and cash equivalents | \$ 1,417,374 |
| Accounts receivable, less doubtful accounts of \$10,250 | 111,633 |
| Unbilled revenues | 118,993 |
| Inventory | 84,357 |
| Prepaid expenses | 8,566 |

| | |
|----------------------|------------------|
| Total current assets | <u>1,740,923</u> |
|----------------------|------------------|

Restricted Assets:

| | |
|---------------------------|----------------|
| Cash and cash equivalents | <u>265,132</u> |
|---------------------------|----------------|

| | |
|-------------------------|----------------|
| Total restricted assets | <u>265,132</u> |
|-------------------------|----------------|

Capital assets:

Assets not being depreciated:

| | |
|------|-----------|
| Land | 1,552,371 |
|------|-----------|

Assets being depreciated:

| | |
|--------------------------------|--------------------|
| Sewer plant in service | 3,804,127 |
| Water plant in service | 9,996,955 |
| Equipment and other | 1,080,139 |
| Less: accumulated depreciation | <u>(7,940,273)</u> |

| | |
|--------------------|------------------|
| Net capital assets | <u>8,493,319</u> |
|--------------------|------------------|

| | |
|--------------|------------|
| Total assets | 10,499,374 |
|--------------|------------|

LIABILITIES

Current Liabilities:

| | |
|-----------------------------------|----------------|
| Accounts payable | 53,942 |
| Payroll liabilities | 67,240 |
| Accrued interest | 3,343 |
| Sales tax payable | 4,045 |
| Current portion of long-term debt | <u>203,830</u> |

| | |
|---------------------------|----------------|
| Total current liabilities | <u>332,400</u> |
|---------------------------|----------------|

| | |
|--|-----------|
| Long-term debt, net of current portion | 2,173,097 |
|--|-----------|

| | |
|-------------------|------------------|
| Total liabilities | <u>2,505,497</u> |
|-------------------|------------------|

NET POSITION

| | |
|----------------------------------|------------------|
| Net investment in capital assets | 6,116,392 |
| Restricted for debt service | 265,132 |
| Unrestricted | <u>1,612,353</u> |

| | |
|--------------------|----------------------------|
| Total net position | <u><u>\$ 7,993,877</u></u> |
|--------------------|----------------------------|

See notes to the financial statements

Sewanee Utility District
Statement of Revenues, Expenses and Change in Net Position
For the Year Ended December 31, 2022

| | | |
|---|----|-------------------------|
| Operating revenues: | | |
| Metered water sales | \$ | 839,989 |
| Metered sewer charge | | 552,552 |
| Water resource charge | | 39,453 |
| System development charge | | 16,353 |
| Late charges | | 14,821 |
| Other operating fees | | 37,942 |
| Total operating revenues | | <u>1,501,110</u> |
| Operating expenses: | | |
| General and administrative | | 335,539 |
| Water plant | | 295,099 |
| Water distribution | | 91,907 |
| Sewer collection | | 127,068 |
| Sewer plant | | 187,618 |
| Board expenses | | 52,575 |
| Depreciation | | 318,081 |
| Total operating expenses | | <u>1,407,887</u> |
| Operating Income | | 93,224 |
| Non-operating revenues (expenses) | | |
| Interest income | | 21,493 |
| Interest expense | | (61,179) |
| Total non-operating revenues (expenses) | | <u>(39,686)</u> |
| Income before capital contributions | | 53,537 |
| Capital contributions | | |
| Water and sewer tap fees | | <u>12,165</u> |
| Change in net position | | 65,702 |
| Net position - beginning | | 7,928,175 |
| Net position - ending | \$ | <u><u>7,993,877</u></u> |

See notes to the financial statements

Sewanee Utility District
Statement of Cash Flows
For the Year Ended December 31, 2022

| | |
|---|----------------------------|
| Cash flows from operating activities: | |
| Cash received from customers | \$ 1,513,275 |
| Cash payments to employees | (482,378) |
| Cash payments for goods and services | (632,344) |
| Net cash provided by operating activities | <u>398,553</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | (119,469) |
| Principal repayments on long-term debt | (200,379) |
| Interest paid | (61,179) |
| Net cash used for capital and related financing activities | <u>(381,027)</u> |
| Cash flows from investing activities: | |
| Interest income received | <u>21,493</u> |
| Net cash provided by investing activities | <u>21,493</u> |
| Net increase in cash and cash equivalents | 39,019 |
| Cash and cash equivalents, beginning of year | <u>1,643,487</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 1,682,506</u></u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 93,224 |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | |
| Depreciation | 318,081 |
| Cash flows impacted by changes in: | |
| Decrease (increase) in accounts receivable | 18,723 |
| Decrease (increase) in unbilled revenues | (16,281) |
| Decrease (increase) in inventory | (41,960) |
| Decrease (increase) in prepaid expenses | 9,443 |
| Increase (decrease) in accounts payable | 8,945 |
| Increase (decrease) in accrued payroll liabilities | 8,083 |
| Increase (decrease) in accrued interest | 438 |
| Increase (decrease) in sales tax payable | (143) |
| Net cash provided by operating activities | <u><u>\$ 398,553</u></u> |

See notes to the financial statements

Sewanee Utility District
Notes to Financial Statements
December 31, 2022

NOTE 1. DEFINITION OF THE REPORTING ENTITY

Sewanee Utility District of Franklin and Marion Counties is incorporated as a two-county utility district under Tennessee State law as the Sewanee Utility District of Franklin and Marion Counties, Tennessee, and is a provider of water and sewer services to residents within the two-county area.

All corporate powers of the District are vested in and exercised by a five-member Board of Commissioners elected by the residents of the District. The District's operations alone constitute the reporting entity since the Board is not financially accountable for any other entities and the District has no relationships with any other entities where the nature and significance of the relationships would require inclusion in the financial statements of the District.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The District's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The District makes a distinction between operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with its principal ongoing operations.

The principal operating revenues of the District are water sales and sewer charges to customers. Operating expenses include administrative expenses, costs of distribution and collection, repairs and maintenance, and depreciation on capital assets. All revenues and expenses not meeting these definitions, including water and sewer tap fees, are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the District considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents regardless of restrictions.

Receivables

Accounts receivable are the result of ordinary transactions in the normal course of business. The District uses the direct write off method to reflect uncollectible accounts. Water revenues are recognized on the accrual basis as earned. The District board adopts and adjusts a formal rate structure for services that is designed to meet operational costs, capital improvement and replacements, and rational reserves.

Sewanee Utility District

Notes to Financial Statements (Cont.)

Inventories

Inventories of materials and supplies used for new taps and repairs to the distribution system are counted annually by the district. The inventory is valued at the lower of cost or market based on a first-in, first-out basis.

Capital Assets

Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,000.00 and an estimated useful life of at least one year. Capital assets are recorded at historical cost at the time of purchase and are depreciated over the estimated useful life of each asset, using the straight-line method of depreciation.

Expenditures for maintenance and repairs, which do not improve or extend the life of the asset, are charged to expenses as incurred. Major outlays for capital assets and improvements are capitalized as projects are constructed. Any interest incurred during the construction phase of capital assets is expensed in the reporting period, in accordance with the requirements of GASB Statement No. 89.

The capital assets of the District are depreciated using the straight-line method over estimated useful lives as follows:

| | |
|-------------------|-------------|
| Buildings | 40-50 years |
| Land Improvements | 20-50 years |
| Infrastructure | 20-50 years |
| Equipment | 5-10 years |
| Vehicles | 3-5 years |

Compensated Absences

Employee vacation accruals are listed on the balance sheet as accrued vacation and represent vacation hours accrued and carried over to the subsequent fiscal year. The accrued vacation is classified as a current liability as the accrued amount is estimated to be utilized in full during the fiscal year ending December 31, 2022.

Management Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

Contributed Capital

Contributions are recognized in the statement of revenues, expenses and changes in net position when earned. Contributions include capital grants, tap fees in excess of tap connection expense, and system expansion projects from third party sources.

Sewanee Utility District Notes to Financial Statements (Cont.)

Net Position

The District classifies net assets into three components; (1) net investment in capital assets (2) restricted, and (3) unrestricted. These classifications are defined as follows:

- 1) Net investment in capital assets - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation for invested in capital assets. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- 2) Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- 3) Unrestricted - The component of net position that does not meet the definition of restricted or net investment in capital assets.

Revenues and Expenses

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all currency, demand deposits, money market accounts and certificates of deposit with banks or other financial institutions to be cash equivalents.

Budget

The District's board of commissioners reviews and adopts an annual operating budget prepared by management. The budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America and that basis is consistent with the basis used in preparing the District's financial statements.

Major Customers

During 2022, approximately 34% of the District's water and sewer revenues were received from The University of the South.

NOTE 3. DEPOSITS AND INVESTMENTS

The District is authorized to invest funds in financial institutions and direct obligations of the Federal Government. During 2022, the District invested in short-term certificates of deposit, savings accounts, and other money market accounts.

Sewanee Utility District Notes to Financial Statements (Cont.)

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. The District's policy requires that deposits be either: (i) secured and collateralized by the institutions at 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance, or (ii) that deposits be placed in financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee.

Institutions participating in the collateral pool determine the aggregated balance of their public funds amounts. The amounts of collateral required to secure these public deposits must be at least 105% of the average daily balance of public deposits held. On December 31, 2022, no deposits were exposed to custodial risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District's policy provides that to the extent practical, investments be matched with anticipated cash flows.

The following is a summary of the District's cash and cash equivalents as of December 31, 2022:

| | <u>Fair Value/ Carrying Amount</u> |
|----------------------------------|--|
| Demand deposits and cash | \$ 186,783 |
| Local Government Investment Pool | <u>1,230,591</u> |
| Total | <u>\$ 1,417,374</u> |

The District had the following restricted cash on December 31, 2022, which is set aside in order to meet bond requirements:

| | |
|--------------------------------------|-------------------|
| Restricted cash and cash equivalents | <u>\$ 265,132</u> |
|--------------------------------------|-------------------|

NOTE 4. UNBILLED REVENUES

Revenues are billed monthly. Revenues are accrued for usage from the last meter reading date to December 31st. Accrued utility revenue for 2022 is \$118,993.

NOTE 5. ANNUAL FEE AGREEMENT

The District has title to certain land and easements granted by the University of the South, subject to reversion to the grantor upon abandonment of the use for which the properties were deeded. The District and the University agreed, under a May 1985 contract, to certain rights and obligations concerning these lands and other matters between the parties. In February 1995, the two parties agreed by a Memorandum of Understanding that the fee payable by the District to the University under the 1985 contract would be reduced to \$9,000.00 per year, with annual increases starting in 2004 at the lesser of 2 percent or the change in the consumer price

Sewanee Utility District

Notes to Financial Statements (Cont.)

index rate. The fee stops in the event that a 157-acre tract ceases being used as a wastewater treatment facility and the tract reverts to the University.

NOTE 6. WETLANDS STUDY AGREEMENT

The District entered into an agreement with the University of the South to allow the University to use real property owned by the District to construct, operate, and maintain a wetland for research purposes. The term of this agreement is five years from the date the University enters the property to begin construction. The University will obtain and pay for all permits, approvals, taxes, assessments, and charges related to construction. Upon termination of the agreement, the University will fill in wetland; remove equipment, accessories, and materials owned by the University and restore the property to the condition prior to the agreement.

NOTE 7. RETIREMENT

Deferred Compensation Plan

All employees of the District may voluntarily participate in the Tennessee State Employees Deferred Compensation Plan and Trust 457(b), administered by the Treasurer of the State of Tennessee. Under Section 457 of the Internal Revenue Code, an employee may defer certain allowable wages to the plan. Participation is handled through payroll deduction, reducing employee federal taxes. Employees may increase, decrease, stop and restart contributions as they wish. The District does not contribute matching or nonmatching funds to the plan and does not recognize any expense related to the plan. The District's liability at December 31, 2022 is limited to employee payroll withholdings for the week not yet remitted to the administrator.

NOTE 8. LONG-TERM DEBT

In 1999, the District received a loan from the U.S. Department of Agriculture under the Rural Development loan program. The loan bears interest at a rate of 4.75% percent per year due in monthly installments of principal and interest in the amount of \$1,418 each which is expected to be paid in full in February 2037. At December 31, 2022, the loan payable balance was \$174,990.

In 2006, the District received a loan from the U.S. Department of Agriculture under the rural Development loan program. The loan bears interest at a rate of 4.25% percent per year, payable in consecutive monthly installments of principal and interest in the amount of \$4,652 each which is expected to be paid in full in April 2044. At December 31, 2022, the loan payable balance was \$782,757.

In 2008, the District entered into a loan agreement with the Tennessee Local Development Authority for \$3,344,973 for a term not to exceed 20 years, interest is based upon a percentage of the bond buyer's index rate and is adjusted annually. The loan was for construction of a new water plant. The District pays consecutive monthly installments of principal and interest in the amount of \$15,687. At December 31, 2022, the loan payable balance was \$1,419,180.

A summary of long-term debt as of December 31, 2022 is as follows:

Sewanee Utility District
Notes to Financial Statements (Cont.)

| | Balance January 01 2022 | Increases | Decreases | Balance December 31 2022 |
|--|-------------------------------|-------------|-------------------|--------------------------------|
| Obligation | | | | |
| USDA Rural Development - Loan 4/1999 | \$ 183,461 | \$ - | \$ 8,471 | \$ 174,990 |
| USDA Rural Development - Loan 6/2006 | 804,865 | - | 22,108 | 782,757 |
| State Revolving Loan Fund DWSRF 2007-073t | 1,588,980 | - | 169,800 | 1,419,180 |
| | <u>\$ 2,577,306</u> | <u>\$ -</u> | <u>\$ 200,379</u> | <u>\$ 2,376,927</u> |

Debt Service requirements for future years are as follows:

| Years Ending December 31 | Principal | Interest |
|-----------------------------|---------------------|-------------------|
| 2023 | 203,830 | 57,242 |
| 2024 | 207,374 | 53,698 |
| 2025 | 210,998 | 50,075 |
| 2026 | 214,720 | 46,353 |
| 2027-2031 | 927,082 | 173,871 |
| 2032-2036 | 259,224 | 104,917 |
| 2037-2041 | 230,437 | 51,324 |
| 2042-2044 | 123,262 | 6,985 |
| | <u>\$ 2,376,927</u> | <u>\$ 544,465</u> |

NOTE 9. CAPITAL ASSETS

A summary of capital asset activity and changes in accumulated depreciation for the year ended December 31, 2022 follows:

Sewanee Utility District
Notes to Financial Statements (Cont.)

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|-------------------|-------------------|---------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 1,552,371 | \$ - | \$ - | \$ 1,552,371 |
| Construction in progress | 227,937 | 10,436 | 238,373 | - |
| Total capital assets not being depreciated | <u>1,780,308</u> | <u>10,436</u> | <u>238,373</u> | <u>1,552,371</u> |
| Capital assets being depreciated | | | | |
| Water plant in service | 9,697,173 | 299,782 | - | 9,996,955 |
| Sewer plant in service | 3,804,127 | - | - | 3,804,127 |
| Equipment and other | 1,020,350 | 59,789 | - | 1,080,139 |
| Total capital assets being depreciated | <u>14,521,650</u> | <u>359,571</u> | <u>-</u> | <u>14,881,221</u> |
| Less: accumulated depreciation | <u>(7,622,192)</u> | <u>-</u> | <u>(318,081)</u> | <u>(7,940,273)</u> |
| Net capital assets being depreciated | <u>6,899,458</u> | <u>359,571</u> | <u>(318,081)</u> | <u>6,940,948</u> |
| Net capital assets | <u>\$ 8,679,766</u> | <u>\$ 370,007</u> | <u>\$ 556,454</u> | <u>\$ 8,493,319</u> |

Depreciation expense recorded during the year was \$318,081.

NOTE 10. RISK MANAGEMENT

The District is exposed to various risks of loss relating to theft, damage to, and destruction of assets. Furthermore, there is exposure to risks of loss relating to natural disasters, errors and omissions, and torts. To insure against casualty risks, the District purchases insurance coverage through an independent insurance agency. Settled claims have not exceeded the commercial coverage in the past three fiscal years.

NOTE 11. EVALUATION OF SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about the conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the district through April 27, 2023 (the date the financial statements were available to be issued) and concluded that no events should be disclosed as a subsequent event.

SUPPLEMENTARY INFORMATION SECTION

Sewanee Utility District
Schedule of Utility Rate Structure and Number of Customers
For the Year Ended December 31, 2022

| | | |
|--|--|------------------|
| | <u>Number of Active Customers</u> | |
| Water | | 1,353 |
| Sewer | | 696 |
| | <u>Water Rates</u> | |
| Base charge for all customers | \$ | 9.56 |
| Volumetric charge (per 1,000 gallons) | | |
| <i>Residential Customers</i> | | |
| 0-7,000 gallons | \$ | 8.52 |
| More than 7,000 gallons | \$ | 9.69 |
| <i>Irrigation Customers</i> | | |
| All consumption | \$ | 9.69 |
| <i>Commercial Customers</i> | | |
| All consumption | \$ | 8.52 |
| <i>Institutional Customers</i> | | |
| All consumption | \$ | 8.52 |
| | <u>Sewer Rates</u> | |
| Base Charge | | |
| All customers | \$ | 7.40 |
| Volumetric Charge (per 1,000 gallons) | | |
| All customers | \$ | 11.00 |
| | <u>Drought Surcharges</u> | |
| Volumetric Charge (per 1,000 gallons) | | |
| Stage 1 (Water/Sewer/Irrigation) | | 0/0/0.33 |
| Stage 2 (Water/Sewer/Irrigation) | | 0.33/0.33/0.78 |
| Stage 3 (Water/Sewer/Irrigation) | | 0.78/0.80/1.57 |
| Stage 4 (Water/Sewer/Irrigation) | | 1.57/.80/Penalty |
| | <u>Service Charges</u> | |
| Initial reading | \$ | 30.00 |
| Cut-on/off | \$ | 25.00 |
| (After work hours) | \$ | 50.00 |
| Fee for transferring service | \$ | 30.00 |
| Certified meter test | \$ | 50.00 |
| Returned check fee | \$ | 35.00 |

Sewanee Utility District
Schedule of Utility Rate Structure and Number of Customers (Continued)

Installation and Connection Charges

| | | |
|--|----|------------|
| 5/8" meter tap* | \$ | 4,151.00 |
| 1" meter tap* | \$ | 9,633.00 |
| 2" meter tap* | \$ | 29,544.00 |
| 3" meter tap* | \$ | 55,795.00 |
| 4" meter tap* | \$ | 91,325.00 |
| 6" meter tap* | \$ | 181,850.00 |
| Irrigation (outside) meter (if off of house line)* | \$ | 4,001.00 |
| Fire protection and sprinkler lines | \$ | 500.00 |
| Sprinkler head charge (per head) | \$ | 0.15 |
| 5/8" meter tap** | \$ | 1,658.00 |
| 1" meter tap** | \$ | 3,395.00 |
| 2" meter tap** | \$ | 9,764.00 |
| 3" meter tap** | \$ | 17,870.00 |
| 4" meter tap** | \$ | 29,450.00 |
| 6" meter tap** | \$ | 58,400.00 |

LEED Water Conservation Certification Credits

| | | |
|----------------|----|-----------|
| 5/8" meter tap | \$ | 785.00 |
| 1" meter tap | \$ | 1,963.00 |
| 2" meter tap | \$ | 6,280.00 |
| 3" meter tap | \$ | 11,775.00 |
| 4" meter tap | \$ | 19,625.00 |
| 6" meter tap | \$ | 39,250.00 |

* Includes Water Resources and Water System Development Charges

** Includes Sewer System Development Charge

Sewanee Utility District
Schedule of Principal and Interest Requirements by Fiscal Year
December 31, 2022

| Fiscal Year Ending | U.S. Department of Agriculture 1999 RUS Loan Program | | | U.S. Department of Agriculture 2006 RUS Loan Program | | | State of Tennessee Drinking Water State Revolving Loan DWSRF 2007-073 | | | Total Requirements per Year | | |
|-----------------------|---|-----------|------------|---|------------|--------------|--|-----------|--------------|-----------------------------|------------|--------------|
| | Principal | Interest | Total | Principal | Interest | Total | Principal | Interest | Total | Principal | Interest | Total |
| 2023 | 8,882 | 8,128 | 17,010 | 23,066 | 32,752 | 55,818 | 171,882 | 16,362 | 188,244 | 203,830 | 57,242 | 261,072 |
| 2024 | 9,313 | 7,697 | 17,010 | 24,067 | 31,751 | 55,818 | 173,994 | 14,250 | 188,244 | 207,374 | 53,698 | 261,072 |
| 2025 | 9,766 | 7,245 | 17,011 | 25,108 | 30,710 | 55,818 | 176,124 | 12,120 | 188,244 | 210,998 | 50,075 | 261,073 |
| 2026 | 10,240 | 6,771 | 17,011 | 26,196 | 29,622 | 55,818 | 178,284 | 9,960 | 188,244 | 214,720 | 46,353 | 261,073 |
| 2027 | 10,737 | 6,273 | 17,010 | 27,332 | 28,486 | 55,818 | 180,474 | 7,770 | 188,244 | 218,543 | 42,529 | 261,072 |
| 2028 | 11,258 | 5,752 | 17,010 | 28,516 | 27,302 | 55,818 | 182,688 | 5,556 | 188,244 | 222,462 | 38,610 | 261,072 |
| 2029 | 11,805 | 5,206 | 17,011 | 29,752 | 26,066 | 55,818 | 184,932 | 3,312 | 188,244 | 226,489 | 34,584 | 261,073 |
| 2030 | 12,378 | 4,633 | 17,011 | 31,042 | 24,776 | 55,818 | 170,802 | 1,276 | 169,623 | 214,222 | 30,685 | 244,907 |
| 2031 | 12,979 | 4,032 | 17,011 | 32,387 | 23,431 | 55,818 | - | - | - | 45,366 | 27,463 | 72,829 |
| 2032 | 13,609 | 3,402 | 17,011 | 33,792 | 22,026 | 55,818 | - | - | - | 47,401 | 25,428 | 72,829 |
| 2033 | 14,269 | 2,741 | 17,010 | 35,255 | 20,563 | 55,818 | - | - | - | 49,524 | 23,304 | 72,828 |
| 2034 | 14,962 | 2,048 | 17,010 | 36,782 | 19,036 | 55,818 | - | - | - | 51,744 | 21,084 | 72,828 |
| 2035 | 15,688 | 1,322 | 17,010 | 38,377 | 17,441 | 55,818 | - | - | - | 54,065 | 18,763 | 72,828 |
| 2036 | 16,450 | 560 | 17,010 | 40,040 | 15,778 | 55,818 | - | - | - | 56,490 | 16,338 | 72,828 |
| 2037 | 2,654 | 17 | 2,889 | 41,775 | 14,043 | 55,818 | - | - | - | 44,429 | 14,060 | 58,489 |
| 2038 | - | - | - | 43,585 | 12,233 | 55,818 | - | - | - | 43,585 | 12,233 | 55,818 |
| 2039 | - | - | - | 45,474 | 10,344 | 55,818 | - | - | - | 45,474 | 10,344 | 55,818 |
| 2040 | - | - | - | 47,447 | 8,371 | 55,818 | - | - | - | 47,447 | 8,371 | 55,818 |
| 2041 | - | - | - | 49,502 | 6,316 | 55,818 | - | - | - | 49,502 | 6,316 | 55,818 |
| 2042 | - | - | - | 51,648 | 4,170 | 55,818 | - | - | - | 51,648 | 4,170 | 55,818 |
| 2043 | - | - | - | 53,885 | 1,933 | 55,818 | - | - | - | 53,885 | 1,933 | 55,818 |
| 2044 | - | - | - | 17,729 | 882 | 18,611 | - | - | - | 17,729 | 882 | 18,611 |
| Total | \$ 174,990 | \$ 65,827 | \$ 241,035 | \$ 782,757 | \$ 408,032 | \$ 1,190,789 | \$ 1,419,180 | \$ 70,606 | \$ 1,487,331 | \$ 2,376,927 | \$ 544,465 | \$ 2,921,392 |

See notes to the financial statements

Sewanee Utility District
Schedule of Changes in Long-Term Debt by Individual Issue
As of December 31, 2022

| Description of Indebtedness | Original Amount of Issue | Interest Rate | Date of Issue | Last Maturity Date | Outstanding 12/31/21 | Issued During Period | Paid and/or Matured During Period | Outstanding 12/31/22 |
|----------------------------------|--------------------------------|------------------|---------------------|--------------------------|-------------------------|----------------------------|--|-------------------------|
| <u>Bonds Payable</u> | | | | | | | | |
| USDA 1999 RUS Loan Program 91-01 | 299,000 | 4.75% | 1999 | 2037 | 183,461 | - | 8,471 | 174,990 |
| USDA 2006 RUS Loan Program 91-04 | 1,050,000 | 4.25% | 2006 | 2044 | 804,865 | - | 22,108 | 782,757 |
| Total Bonds Payable | | | | | 988,326 | - | 30,579 | 957,747 |
| <u>Other Loans Payable</u> | | | | | | | | |
| SRL SWSRL-2007-073 | 3,344,973 | VAR. | 2008 | 2030 | 1,588,980 | - | 169,800 | 1,419,180 |
| Total Other Loans Payable | | | | | 1,588,980 | - | 169,800 | 1,419,180 |
| Total Long-Term Debt | | | | | <u>\$ 2,577,306</u> | <u>\$ -</u> | <u>\$ 200,379</u> | <u>\$ 2,376,927</u> |

See notes to the financial statements

**Sewanee Utility District
Schedule of Debt Service Coverage
As of December 31, 2022**

| Fiscal Year | Gross Revenue* | Operating Expenses** | Net Revenue Available for Debt Service | Debt Service Requirement (For Next Fiscal Year) | | Total | Coverage |
|----------------|-------------------|-------------------------|---|---|----------|---------|----------|
| | | | | Principal | Interest | | |
| 2010 | 1,422,096 | 890,543 | 531,553 | 170,464 | 94,280 | 264,744 | 2.01 |
| 2011 | 1,517,808 | 1,017,357 | 500,451 | 172,977 | 91,767 | 264,744 | 1.89 |
| 2012 | 1,407,829 | 960,946 | 446,883 | 175,738 | 89,006 | 264,744 | 1.69 |
| 2013 | 1,408,386 | 919,542 | 488,844 | 178,562 | 86,182 | 264,744 | 1.85 |
| 2014 | 1,395,354 | 926,245 | 469,109 | 178,410 | 82,662 | 261,072 | 1.80 |
| 2015 | 1,514,908 | 1,018,250 | 469,109 | 181,334 | 79,738 | 261,072 | 1.80 |
| 2016 | 1,629,386 | 1,020,950 | 608,436 | 184,321 | 76,751 | 261,072 | 2.33 |
| 2017 | 1,591,927 | 1,004,100 | 587,827 | 187,383 | 73,689 | 261,072 | 2.25 |
| 2018 | 1,408,386 | 919,542 | 488,844 | 190,517 | 70,555 | 261,072 | 1.87 |
| 2019 | 1,523,983 | 987,024 | 536,959 | 193,721 | 67,352 | 261,073 | 2.06 |
| 2020 | 1,260,021 | 994,566 | 265,455 | 197,011 | 64,062 | 261,073 | 1.02 |
| 2021 | 1,416,892 | 971,323 | 445,569 | 200,379 | 60,693 | 261,072 | 1.71 |
| 2022 | 1,522,603 | 1,089,807 | 432,796 | 203,830 | 57,242 | 261,072 | 1.66 |

* Gross revenue includes both operating revenue and investment income

** Operating expenses excludes depreciation and interest expense

See notes to financial statements

Sewanee Utility District
Schedule of 10 Year Historical Data-Operations
Years ended December 31

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Operating revenues: | \$ 1,412,986 | \$ 1,247,658 | \$ 1,483,190 | \$ 1,382,260 | \$ 1,579,147 | \$ 1,621,808 | \$ 1,513,412 | \$ 1,394,045 | \$ 1,539,391 | \$ 1,405,521 |
| Operating expenses | 1,288,543 | 1,314,458 | 1,303,558 | 1,231,832 | 1,317,955 | 1,328,759 | 1,331,910 | 1,241,362 | 1,337,511 | 1,264,209 |
| Operating income (loss) | 124,443 | (66,800) | 179,632 | 150,428 | 261,192 | 293,049 | 181,502 | 152,683 | 201,880 | 141,312 |
| Non-operating revenues (expenses), net | (59,373) | (55,906) | (35,123) | (47,611) | (70,180) | (73,283) | (65,579) | (98,791) | (85,104) | (264,677) |
| Contributed capital | 12,630 | 8,695 | 11,129 | | | | | | | (A) |
| Change in net position | 77,700 | (114,011) | 155,638 | 102,817 | 191,012 | 219,766 | 115,923 | 53,892 | 116,776 | (123,365) |
| Net position - beginning | 7,850,475 | 8,000,901 | 7,845,263 | 7,742,446 | 7,551,434 | 7,331,668 | 7,251,745 | 7,165,406 | 7,048,631 | 7,171,996 |
| Prior Period Adjustment | - | (36,415) | | | | | | (3,552) | | |
| Net position - ending | \$ 7,928,175 | \$ 7,850,475 | \$ 8,000,901 | \$ 7,845,263 | \$ 7,742,446 | \$ 7,551,434 | \$ 7,367,668 | \$ 7,215,746 | \$ 7,165,407 | \$ 7,048,631 |
| Water customers | 1,353 | 1,544 | 1,535 | 1,511 | 1,751 | 1,498 | - | - | 1,471 | 1,480 |
| Base rate per 1,000 gallons | 9.56 | 9.91 | 9.21 | 9.21 | 9.21 | 9.12 | 8.81 | 8.81 | 8.81 | 8.59 |
| Sewer customers | 696 | 696 | 696 | 694 | 707 | 698 | - | - | 679 | 689 |
| Minimum charge | 7.40 | 7.13 | 7.13 | 7.13 | 7.13 | 7.06 | 6.82 | 6.82 | 6.82 | 6.65 |
| Base 5/8" meter tap fee | 4,151 | 4,151 | 4,151 | 4,151 | 4,151 | 4,151 | 4,151 | 4,151 | 4,151 | 4,151 |

(A) Includes reimbursement of billing error totaling \$172,446

GOVERNMENT AUDITING STANDARDS SECTION

The MG Group, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Commissioners
Sewanee Utility District
Sewanee, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Sewanee Utility District as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Sewanee Utility District's basic financial statements, and have issued our report thereon dated April 27, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sewanee Utility District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sewanee Utility District's internal control. Accordingly, we do not express an opinion on the effectiveness of Sewanee Utility District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sewanee Utility District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an

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opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mg Group, P.C.

Tullahoma, Tennessee
April 27, 2023

**Sewanee Utility District
Schedule of Findings and Responses
Year Ended December 31, 2022**

SECTION I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Unmodified opinion issued on the financial statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

SECTION II. FINANCIAL STATEMENT FINDINGS

None reported.

**Sewanee Utility District
Summary Schedule of Prior Year Findings
Year Ended December 31, 2022**

Government Audit Standards require auditors to report the status of uncorrected findings for prior audits. In addition, OMB's Uniform Guidance requires auditees to report the status of all prior-year findings whether corrected or uncorrected. Presented below are financial statement findings along with their status from the Financial Statements and Supplementary Information of Sewanee Utility District, for year ended December 31, 2021.

Prior-year Financial Statement Findings

| Finding | Title of Finding | Status |
|----------------|-------------------------|---------------|
| | | |